

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Morenci Unified School District No. 18

Year Ended June 30, 2006



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
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December 10, 2007

Governing Board
Morenci Unified School District No. 18
P.O. Box 1060
Morenci, AZ 85540-1060

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2006, prepared by Heinfeld, Meech & Co., P.C. to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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INTRODUCTION

Morenci Unified School District No. 18 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$7 million it received in fiscal year 2006 to provide this education.

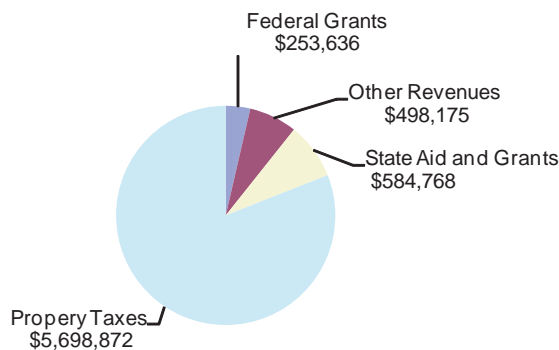
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2006, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2006

County: Greenlee
Number of Schools: 2

Number of Students: 928
Grade Levels: K-12



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2005-2006 and Morenci Unified School District No. 18 Report on Audit of Financial Statements and Report on Internal Control and on Compliance for the Fiscal Year Ended June 30, 2006.*

The District should strengthen controls over competitive purchasing

The District did not always follow competitive purchasing requirements and, therefore, could not ensure it received the best value for the public monies it spent.

School District Procurement Rules (Rules) for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold help ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the procurement rules or the USFR guidelines. For example, the District did not always maintain a copy of the invitation for bids (IFB), did not always include all required information in the IFB, and did not always retain documentation to support the basis for a multiple award. In addition, the District did not always prepare or retain written documentation to support the Governing Board's determination of a vendor as the only source for the required material, service, or construction item. The District also did not perform due-diligence procedures for purchases made through a purchasing cooperative.

Further, the District did not always analyze the known requirements for items to be purchased. As a result, the District did not always obtain oral or written price quotations for purchases requiring them.

Recommendations

To strengthen controls over competitive purchasing and to comply with the Rules and USFR guidelines, the District should:

- Retain all bid documentation, including a copy of the IFB, to support that proper bid and award procedures were followed.
- Include all applicable factors required by the Rules in its IFB, including evaluation factors, a notice that all information and bids submitted would be available for public inspection, and the contract terms and conditions.
- Maintain documentation of all bids received, including time- and date-stamped envelopes or packaging, or a log indicating that bids were time- and date stamped upon receipt.
- Document in writing the specific reasons that a single award was not advantageous to the District if awards are made to multiple vendors.
- Maintain written documentation of the Governing Board's determination that there is only one source for the required material, service, or construction item.
- Document the process used and results of due diligence to support the District's participation in purchasing cooperatives.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

- Analyze the known requirements for an item or a collection of items that, in the aggregate, may result in purchases above the applicable threshold.
- Obtain oral price quotations from three or more vendors for purchases costing at least \$5,000 but less than \$15,000.
- Obtain written price quotations from three or more vendors for purchases costing at least \$15,000 but less than \$33,689.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

The District should improve its controls over expenditure processing

The District spends public monies to purchase goods and services. It is essential that the District follows procedures designed to help ensure that its expenditures are adequately supported and accurately paid. However, the District did not have adequate controls over expenditure processing. Specifically, the District did not establish a formal written policy governing the use of credit cards, and documentation supporting credit card expenditures did not always clearly identify the employee making the purchase. Also, the District did not always prepare purchase orders prior to ordering goods or services. In addition, some expenditures exceeded approved purchase order amounts, and the District did not indicate that invoices had been checked for accuracy prior to payment.

The District did not maintain formal written policies governing the use of its credit cards.

Recommendations

To help strengthen controls over expenditure processing, the District should:

- Establish formal written credit card policies that require authorized employees to promptly submit credit card receipts that identify the employee making the purchase and the specific district purpose for each expenditure.
- Prepare and approve purchase orders prior to ordering goods or services.
- Ensure that purchases do not exceed approved purchase order amounts. For purchases in excess of approved purchase orders, the existing purchase order should be revised and re-approved, or a new purchase order should be prepared.
- Verify the mathematical accuracy of vendor invoices, and initial and date the invoices as evidence of the review.

USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.

The District's controls over student activities monies should be strengthened

Poor cash controls left student monies susceptible to loss, theft, or misuse.

The District holds student activities monies raised through students' efforts for safekeeping. Therefore, the District has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, proper oversight was not established. For example, the District deposited monies not raised through students' efforts into the student activities bank account. Also, the District did not prepare prenumbered cash receipt forms, and cash collection reports were not always prepared. In addition, the District did not maintain documentation supporting student approval for student activities disbursements. Further, four student clubs had negative account balances as of June 30, 2006, and the District had two invalid student clubs. Finally, the student activities bank account reconciliation as of June 30, 2006, included checks that had been outstanding since June 30, 2002.

Recommendations

To improve controls over student activities cash receipts and disbursements, the District should:

- Ensure that only monies raised by student efforts in connection with activities of student organizations, clubs, school plays, or other student entertainment are deposited into the student activities bank account.
- Require student clubs to document sales at student activities events by issuing prenumbered cash receipt forms or tickets, using a cash register, or performing counts of items before and after sales.
- Require student clubs to prepare cash collection reports that document sales and reconcile cash collected to receipts, tickets, or items sold at student activities events. If it is not practical to prepare cash receipt forms, sell tickets, or count items before and after sale, such as for bake sales, cash collection reports should still be prepared to document amounts received.
- Make disbursements from the student activities account only if approved and documented in the student club minutes.
- Ensure that individual student club balances are sufficient before authorizing disbursements.

A sample student activities cash collection report is on USFR page X-H-21.

- Close invalid student club accounts and transfer any remaining balances to the student council.
- Prepare complete and accurate monthly bank reconciliations in a timely manner to verify the accuracy of the bank and checkbook balances. The reconciliation should include a list of outstanding checks. Checks outstanding for more than 6 months should be deleted from the list, and the check register should be adjusted appropriately.

The District should maintain accurate financial records

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records and budgets are accurate and complete. However, the District did not fully accomplish this objective. Specifically, the District recorded some expenditures in the wrong fiscal year. Also, the District did not publish the notice of public hearing and Governing Board meeting to adopt the proposed expenditure budget. In addition, the District did not file the publisher's affidavit of publication for the annual financial report (AFR) with the Superintendent of Public Instruction. Further, the District did not properly carry forward the prior year Classroom Site Fund (CSF) budget balance for one fund, and did not adopt the CSF performance pay plan for FY 2006.

Recommendations

To ensure the accuracy of its accounting records the District should:

- Record expenditures in the fiscal year in which goods and services are received.
- Publish or mail the proposed expenditure budget or budget summary and the notice of public hearing and special board meeting no later than 10 days prior to the meeting to consider the budget.
- File required AFR documents with the Superintendent of Public Instruction and retain documentation to support that the documents were submitted.
- Carry forward the unexpended budget balances for each of the three CSFs to the following year in accordance with Arizona Revised Statutes §15-978.

- Adopt, at a public hearing, a performance-based compensation plan to allocate monies from the CSF.

The District should ensure the accuracy of its student attendance records

The District may not have received the correct amount of state aid.

The State of Arizona provides funding to school districts based on student membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to ensure that districts receive the appropriate amount of state aid and local property taxes. However, the District did not always include entry dates on student entry forms or properly calculate absences. In addition, the District did not always enter student withdrawals into its computerized attendance system within 5 working days.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Ensure that student entry forms include the entry date.
- Record kindergarten students, with total instruction time between 346 and 692 hours per year, as absent if in attendance for less than three-quarters of the day. If instructional time for the year was 692 hours or more, students not in attendance at least one-half of the day should be counted as absent.
- Record attendance for students enrolled in first through eighth grades, if attendance is based on half-days, as follows:
 - Attendance of at least three-quarters of the instructional time scheduled for the day should be counted as a full day of attendance.
 - Attendance for at least one-half, but less than three-quarters, of the instructional time scheduled for the day should be counted as a half-day absence.
- Record withdrawals in its computerized attendance system within 5 working days of the withdrawal date and document the date entered on the withdrawal form.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.